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SUBJECT: SLOVENIA CLEANING ITS ECONOMIC HOUSE

SUMMARY

1. (SBU) The Government of Slovenia (GOS) is making a strong push to investigate and convict people guilty of economic crimes. The Office of the State Prosecutor General (Office) has been hampered by a lack of coordination between its office and the police, and its small work force. In response to these challenges, the Office has decided to focus on three areas: public procurement, tax evasion, and the construction industry. It has also stepped up its cooperation with the police. Over the last few years, the Embassy has worked with the Prosecutor's Office and the Ministry of Justice to create concrete ways to improve the judicial system in Slovenia. The Office's effort has resulted in several large investigations that the Office hopes to take to trial. On February 12, the police announced the arrests of the heads of the three largest construction companies in Slovenia, as well the head of the Slovenian air traffic control company Slovenia Control on bribery charges associated with the construction of the new airport control tower. The Deputy State Prosecutor General, Mirko Vrtacnik, who might be meeting with Attorney General Michael Mukasey on March 12, has requested practical U.S. assistance, especially in investigating tax evasion and insider trading. End Summary.

Crime on the Rise - GOS Seeks Practical Training

2. (SBU) Vrtacnik, who might be meeting with Attorney General Mukasey on March 12, told emboff on March 3 that reports of white collar crime to the Prosecutor's Office and tax authorities have been on the rise. Of those reported, he highlighted two cases that he hoped would lead to convictions: a corruption charge against the construction industry and a tax evasion case involving the use of "missing traders." Vrtacnik admitted that his office has had difficulty sifting through the large quantities of material in the short time period given to them; he said Slovenian prosecutors did not yet have a good enough grasp of how to identify relevant information. As Vrtacnik thanked emboff for the Embassy's cooperation over the last two years, he requested practical support from U.S. experts on how to investigate subtle crimes such as tax evasion and insider trading. One suggestion he made was to invite an American judge with experience in overseeing white-collar criminal cases to Slovenia to meet with both prosecutors and judges.

A Sweep of the Construction Industry

13. (SBU) The Slovene media reported that on 12 February the police and prosecutors from the special unit for organized crime at the State Prosecutor's Office searched the homes of dozens of people alleged to be involved in corruption surrounding the construction of the new control tower at Ljubljana Airport. Vrtacnik told us that the police, working closely with prosecutors, arrested the heads of the three largest Slovenian construction companies -- SCT, Primorje and Vegrad. The police had also arrested Tomaz Zibert from air traffic control company Slovenia Control. After questioning, police released all detainees except Zibert - although they are all under pre-trial investigation. Vrtacnik said that he hoped the material the police seized would provide evidence not only in the corruption case against the construction companies involved in building the control tower, but also in other cases. Although the media has carried allegations that these prosecutions are politically motivated, Vrtacnik explained that rumors of bribery, price fixing, and money laundering had been attached to the construction industry for years, but his office had not been able to gather enough evidence to prosecute until now. His goal was that the closer coordination between the police and prosecutors over the last 15 months would lead to evidence on other suspicious business deals.

e-Government Makes Tax Evasion Easier

14. (SBU) Vrtacnik explained that tax evasion had become a serious problem in Slovenia, but that his office was having difficulties proving individual cases. He lamented that Slovenia's admirable on-line business registration system had made tax evasion easier. While Vrtacnik applauded the true intention of on-line business registration as a way of supporting legitimate businesspeople, he said that this new form of registration, which could be done in less than 30 minutes sight-unseen, had promulgated the increase of "missing trader" companies (MTCs). In Slovenia, continued Vrtacnik, the most common way to avoid taxes was through a chain of complicated transactions where the VAT was attributed only to the final shell MTC, which no longer existed, saving all the other companies from having to pay the 20 percent VAT. According to our understanding, an MTC results when a real company enlists someone to register a company; however, the new company is not associated with any known address that could be visited by tax inspectors. After a few months, the MTC is de-registered without paying the VAT owed to the Tax Authority. The tax unit is only able to investigate 3.5 percent of the over 60,000 companies registered in Slovenia per year; thus, the likelihood of an MTC being investigated is slim. Even with investigations, it is difficult, Vrtacnik claimed. He cited the trading company Meltal that prosecutors believed established MTCs to avoid paying at least 900,000 dollars and possibly up to 30 million dollars in value added tax (VAT).

Obstacles to Convictions

15. (SBU) According to Vrtacnik, prosecutors have had little success in the courts - judges have dismissed many cases for insufficient evidence. For example, the High Court has rejected attempts to prosecute big Slovene companies such as pharmaceutical company Lek and appliance manufacturer Gorenje for insider trading on this basis. Vrtacnik complained about one case where the prosecutors missed the deadline for submitting evidence against Lek by minutes. He opined that the courts should give prosecutors more time to collect information and submit evidence. Vrtacnik optimistically stated that the recent cases should bring better results because of the increased coordination between the police and the prosecutors, who had decided to focus resources on a few critical cases.

Comment

16. (SBU) Slovenia, like many other EU countries, has seen a rise in tax evasion and other white collar crimes. The GOS is serious about tackling this growing problem and is committed to sending a strong message to businesses that it will not tolerate corruption. In October 2007, three officials from the Ministry of Justice went to the U.S. to observe actual court cases and consult with prosecutors

on the criminal process. The participants raved about the benefits of the program, and the Prosecutor's Office has requested more such opportunities for professional consultations. The Embassy plans to continue to work with both the Ministry of Justice and the Prosecutor's Office on concrete paths to judicial reforms in the coming months. End Comment.

COLEMAN